

**SOUTHWEST EDUCATIONAL DEVELOPMENT CENTER**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2005**

# **SOUTHWEST EDUCATIONAL DEVELOPMENT CENTER**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Southwest Educational Development Center  
Cedar City, Utah

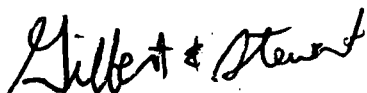
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Educational Development Center (SEDC) as of and for the year ended June 30, 2005, which collectively comprise the SEDC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the SEDC's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Educational Development Center as of June 30, 2005, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2005, on our consideration of the SEDC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



GILBERT & STEWART, CPA'S

November 29, 2005

## Management's Discussion and Analysis

As management of the Southwest Educational Development Center (SEDC), we offer readers of the SEDC's financial statements this narrative discussion, overview, and analysis of the financial activities of the SEDC for the fiscal year ending June 30, 2005.

### Financial Highlights

- SEDC's assets exceeded liabilities by \$1,032,027 at the close of the most recent fiscal year.
- During the year revenues were \$426,154 more than the \$1,633,511 expenses in the governmental activities.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the SEDC's basic financial statements. The SEDC's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the SEDC's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the assets and liabilities of the SEDC, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the SEDC is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the SEDC changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 8 through 9 of this report.

## **Fund Financial Statements**

A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The SEDC, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the SEDC can be divided into two categories, governmental funds and fiduciary funds.

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The SEDC maintains one governmental fund (general fund). Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the *general fund*.

The SEDC adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund statements can be found on pages 10 to 14 of this report.

## **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 15 to 23 of this report.

## **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents statistical and other information that can be found after the notes to the basic financial statements.

## Government-Wide Financial Analysis (full accrual basis of accounting)

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the SEDC, assets exceeded liabilities by \$1,032,027 at June 30, 2004. Below is a summary of the SEDC's assets, liabilities, and net assets (comparative information is not available but will be presented in future years).

### SEDC'S Net Assets

	Governmental Activities	
	2005	2004
Current and other assets	\$ 721,030	\$ 286,037
Capital assets	405,801	434,700
Total assets	<u>\$ 1,126,831</u>	<u>\$ 720,737</u>
Current and other liabilities	\$ 70,537	\$ 61,698
Noncurrent liabilities	24,267	30,932
	<u>94,804</u>	<u>92,630</u>
Net Assets:		
Invested in capital assets		
net of related debt	405,801	434,700
Unrestricted	626,226	193,407
	<u>\$ 1,032,027</u>	<u>\$ 628,107</u>

A portion of the SEDC's net assets (39%) reflects its investment in capital assets less any related outstanding debt used to acquire those assets. The SEDC uses these capital assets to provide services to students and consequently, these assets are *not* available for future spending. Although the SEDC's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The remainder of net assets (61%) may be used to meet the SEDC's ongoing obligations to students, employees, and creditors.

As of June 30, 2005, the SEDC is able to report positive balances in all categories of net assets, both for the SEDC as a whole and for its separate governmental activities. The same situation held true for the prior fiscal period.

## SEDC'S Changes in Net Assets

	Governmental Activities	
	2005	2004
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 188,683	\$ 143,510
Operating grants and contributions	996,893	795,858
General Revenues:		
Federal and state aid not restricted to specific purposes	347,820	301,889
Miscellaneous	519,769	372,801
Total revenues	<u>2,053,165</u>	<u>1,614,058</u>
<b>Expenses:</b>		
Support services:		
Instructional staff	<u>1,649,245</u>	<u>1,674,080</u>
Total expenses	<u>1,649,245</u>	<u>1,674,080</u>
Changes in net assets	403,920	(60,022)
Net assets, beginning	<u>628,107</u>	<u>688,129</u>
Net assets, ending	<u>\$ 1,032,027</u>	<u>\$ 628,107</u>

## Financial Analysis of the SEDC's Funds (modified accrual basis)

As noted earlier, the SEDC uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the SEDC's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the SEDC's financing requirements. The unreserved fund balance is divided between designated balances and undesignated balances. The SEDC has designated portions of the unreserved fund balance to earmark resources for certain government-wide liabilities that are not recognized in the governmental funds. Undesignated balances in the general fund are required by state law to be appropriated in the following year's budget. Fund balances of capital projects and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the SEDC's discretion.

The *general fund* is the chief operating fund of the SEDC. At June 30, 2005, unreserved and undesignated fund balance was \$641,888 while the total fund balance was \$650,493. The unreserved and undesignated fund balance increased by \$426,154 while the total fund balance also increased by \$426,154 during the fiscal year. Annual expenditures in



fund balance also increased by \$426,154 during the fiscal year. Annual expenditures in the general fund were \$519 less than the final budgeted amounts, and resources available for appropriation were \$327,165 more than final budgeted amounts.

## Capital Assets

The SEDC acquired capital assets of \$28,783 during the fiscal year ended June 30, 2005, all of which was the acquisition of transportation equipment. Capital assets at June 30, 2005 are outlined below:

### SEDC'S Capital Assets (net of accumulated depreciation)

	2005	2004
Land	\$ -	\$ -
Buildings	64,800	66,600
Furniture and Equipment	341,001	368,100
	<u>\$ 405,801</u>	<u>\$ 434,700</u>

Additional information on the SEDC's capital assets can be found in Note 3 to the basic financial statements.

## Requests for Information

This financial report is designed to provide a general overview of the Southwest Educational Development Center's finances and to demonstrate the SEDC's accountability for the funds it receives. If you have any questions concerning this report or need additional financial information, please contact the Director, SEDC, 520 West 800 South, Cedar City, Utah 84720.

# **SOUTHWEST EDUCATIONAL DEVELOPMENT CENTER**

## **Statement of Net Assets**

**June 30, 2005**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash and investments	\$ 606,812
Receivables:	
Local Sources	16,881
Other governments	88,732
Inventories	8,605
Capital assets:	
Capital assets, net of accumulated depreciation	405,801
Total assets	<u>1,126,831</u>
<b>Liabilities:</b>	
Accounts payable	39,430
Accrued salaries	31,107
Noncurrent liabilities:	
Due within one year	7,332
Due in more than one year	16,935
Total liabilities	<u>94,804</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	405,801
Unrestricted	626,226
Total net assets	<u>\$ 1,032,027</u>

The notes to the financial statements are an integral part of this statement.

# SOUTHWEST EDUCATIONAL DEVELOPMENT CENTER

## Statement of Activities

Year Ended June 30, 2005

	Functions	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Expenses	Charges for Services	Operating Grants and Contributions	
				Capital Grants and Contributions	Total Governmental Activities
<b>Governmental activities:</b>					
Supporting services:					
Instructional staff					
Total school district					
		\$ 1,649,245	\$ 188,683	\$ 996,893	\$ (463,669)
		<u>\$ 1,649,245</u>	<u>\$ 188,683</u>	<u>\$ 996,893</u>	<u>(463,669)</u>
Federal and state aid not restricted to specific purposes					
Miscellaneous					
					347,820
					519,769
					867,589
					403,920
					628,107
					<u>\$ 1,032,027</u>

The notes to the financial statements are an integral part of this statement.

**SOUTHWEST EDUCATIONAL DEVELOPMENT CENTER**

**Balance Sheet  
Governmental Fund**

June 30, 2005

	<u>General Fund</u>
<b>Assets:</b>	
Cash and investments	\$ 606,812
Receivables:	
Local sources	16,881
Other governments	88,732
Inventory	8,605
Total assets	<u>\$ 721,030</u>
 <b>Liabilities and fund balances:</b>	
Liabilities:	
Accounts payable	\$ 39,430
Accrued salaries	31,107
Total liabilities	<u>70,537</u>
 Fund Balances:	
Reserved for:	
Inventory	8,605
Unreserved:	
Undesignated, reported in:	
General fund	641,888
Total fund balances	<u>650,493</u>
Total liabilities and fund balances	<u>\$ 721,030</u>

The notes to the financial statements are an integral part of this statement.

**SOUTHWEST EDUCATIONAL DEVELOPMENT CENTER**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
**June 30, 2005**

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<b>Total fund balances for governmental funds</b>	<b>\$ 650,493</b>
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:

Buildings and improvements, net of \$25,200 accumulated depreciation	\$ 64,800	
Furniture and equipment, net of \$781,506 accumulated depreciation	<u>341,001</u>	405,801

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:

Early retirement payable	<u>(24,267)</u>	<u>(24,267)</u>
<b>Total net assets of governmental activities</b>		<b><u>\$ 1,032,027</u></b>

The notes to the financial statements are an integral part of this statement.

**SOUTHWEST EDUCATIONAL DEVELOPMENT CENTER**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Fund**  
**Year Ended June 30, 2005**

	<u>General Fund</u>
<b>Revenues:</b>	
Other local sources	\$ 708,452
State aid	860,861
Federal aid	483,852
Total revenues	<u>2,053,165</u>
<b>Expenditures:</b>	
Current:	
Supporting services:	
Instructional staff	<u>1,633,511</u>
Total expenditures	<u>1,633,511</u>
Excess (deficiency) of revenues over (under) expenditures	<u>419,654</u>
<b>Other financing sources (uses):</b>	
Sale of capital assets	<u>6,500</u>
Total other financing sources (uses)	<u>6,500</u>
Net change in fund balances	426,154
<b>Fund balances - beginning</b>	<u>224,339</u>
<b>Fund balances - ending</b>	<u><u>\$ 650,493</u></u>

The notes to the financial statements are an integral part of this statement.

**SOUTHWEST EDUCATIONAL DEVELOPMENT CENTER**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances of Government Funds to the Statement of Activities**  
**Year Ended June 30, 2005**

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**Net change in fund balances-total governmental funds**

**\$ 426,154**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 for furniture and equipment and \$75,000 for buildings and improvements are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$ 28,783	
Depreciation expense	<u>(57,682)</u>	(28,899)

In the statement of activities, certain operating expenses - compensated absences (vacations), special termination benefits (early retirement) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Early retirement payable decreased \$6,665.

6,665

**Change in net assets of governmental activities**

**\$ 403,920**

The notes to the financial statements are an integral part of this statement.

**SOUTHWEST EDUCATIONAL DEVELOPMENT CENTER**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**General Fund**  
**Year Ended June 30, 2005**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget -</b>
				<b>Positive</b>
				<b>(Negative)</b>
<b>Revenues:</b>				
Other local sources	\$ 252,617	\$ 398,600	\$ 708,452	\$ 309,852
State aid	855,800	850,600	860,861	10,261
Federal aid	475,000	476,800	483,852	7,052
Total revenues	1,583,417	1,726,000	2,053,165	327,165
<b>Expenditures:</b>				
Current:				
Supporting services:				
Instructional staff				
Salaries and benefits	883,594	885,500	841,629	43,871
Purchased services	636,056	637,500	633,582	3,918
Supplies	83,747	85,700	82,637	3,063
Property	25,330	25,330	75,663	(50,333)
Total expenditures	1,628,727	1,634,030	1,633,511	519
Excess of revenues over expenditures	(45,310)	91,970	419,654	327,684
<b>Other financing sources (uses):</b>				
Sale of capital assets	-	-	6,500	6,500
Net change in fund balances	(45,310)	91,970	426,154	334,184
<b>Fund balances - beginning</b>	<b>224,339</b>	<b>224,339</b>	<b>224,339</b>	<b>-</b>
<b>Fund balances - ending</b>	<b>\$ 179,029</b>	<b>\$ 316,309</b>	<b>\$ 650,493</b>	<b>\$ 334,184</b>

The notes to the financial statements are an integral part of this statement.



**SOUTHWEST EDUCATIONAL DEVELOPMENT CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Southwest Educational Development Center (SEDC) have been prepared in conformity with accounting principals generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principals. The more significant accounting policies of the SEDC are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time the financial statements include:

A Management's Discussion and Analysis (MD&A) providing an analysis of the SEDC's overall financial position and results of operations.

Financial statements prepared using full-accrual accounting for all of the SEDC's activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The SEDC has implemented the provisions of Statement No. 34 as well as other new standards related to note disclosure, nonexchange transactions, and certain liabilities and expenditures.

- **Reporting Entity** – The SEDC is a joint venture with Iron, Millard, Beaver, Garfield, Washington, and Kane County School Districts and Southern Utah University and Dixie College. Iron County School District serves as the fiscal agent for SEDC and has ongoing fiscal responsibility for the SEDC. The Board of Directors, comprised of superintendents of Iron, Millard, Beaver, Garfield, Washington, and Kane County School Districts and the presidents of Southern Utah University and Dixie College, is the governing authority for the SEDC. The Board establishes District policies, approves budgets, appoints a Director with responsibilities for administering all educational activities and for fiscal matters. The SEDC provides educational services, applied technology education, and media support to the school districts served as well as Southern Utah University and Dixie College. As required by GAAP, these basic financial statements present the activities of the SEDC. The SEDC is not a component unit of any other primary government.

**SOUTHWEST EDUCATIONAL DEVELOPMENT CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

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**Government-wide and fund financial statements** – The *government-wide financial statements* (i.e., the statement of net assets and the statement of changes in net assets) display information about the primary government (the SEDC). These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the SEDC's governmental activities. Direct expenses are those that are specifically associated with a function and, therefore, are clearly identifiable to a particular function. Depreciation expense for capital assets that can specifically be identified with a function are included in its direct expenses. Depreciation expense for "shared" capital assets (for example, a school building is used primarily for instructional, administration, and operation and maintenance of facilities) are ratably included in the direct expenses of the appropriate functions. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities.

Program revenues include 1) fees and charges paid by students and other recipients of goods or services, offered by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not classified as program revenues are presented as general revenues.

The *fund financial statements* provide information about the SEDC's funds. Separate statements for each fund category (governmental) are presented. The emphasis of fund financial statements is on major governmental funds. SEDC has only one governmental fund (general) that is presented.

The SEDC reports the following major governmental fund:

- The *general fund* is the SEDC's primary operating fund. It accounts for all financial resources of the SEDC, except those required to be accounted for in another fund.

The SEDC has no nonmajor funds and therefore none are presented.

**Measurement focus, basis of accounting, and financial statement presentation** – The *government-wide financial statements* are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the SEDC receives value without directly giving equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**SOUTHWEST EDUCATIONAL DEVELOPMENT CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

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*Governmental fund financial statements* are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The SEDC considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures generally are recorded when the related fund liability is incurred, except for claims and judgments, early retirement and post-employment healthcare benefits, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental fund.

Under the terms of grant agreements, the SEDC funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the SEDC's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

**Budgetary Data** – Budgets are presented on the modified accrual basis of accounting for all governmental funds. Budgets are not adopted on a SEDC level for the student activities agency fund. All annual appropriations lapse at fiscal year-end with the exception of those indicated as a fund balance reserve. The following procedures are used in establishing the budgetary data reflected in the financial statements.

- During June of each year, the SEDC director submits to the Board a proposed operating budget for the next fiscal year commencing July 1<sup>st</sup>. This budget includes proposed expenditures and the means of financing them. Included also is a final budget for the current year ending June 30<sup>th</sup>.
- Copies of the proposed budget are made available for public inspection and review by the SEDC's patrons.
- Once adopted, the budget can be amended by subsequent Board action. The Board, upon recommendation of the director can approve changes in appropriations. In accordance with Utah state law, interim adjustments may be made by administrative transfer of money from one appropriation to another within any given fund.
- Certain interim adjustments in estimated revenue and expenditures during the year ended June 30, 2005, have been included in the final budget approved by the Board, as presented in the financial statements.
- Expenditures may not legally exceed budgeted appropriations at the department level.

**SOUTHWEST EDUCATIONAL DEVELOPMENT CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

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Encumbrance accounting is employed in the governmental fund. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Negative variances in total revenues and the positive variances in total expenditures are largely a result of federal and state program revenues and related expenditures that do not have a direct impact on the undesignated fund balance. Budgets generally assume the expenditure of all available resources. Therefore, when the budget is prepared, it is assumed these funds will not have a carryover of revenue to a subsequent year. Program revenue received but not spent is restricted and deferred to the subsequent fiscal year. As a result, overall fund revenue variances will be negative, and overall fund expenditure variances will be positive.

**Cash and Investments** – The cash balances of substantially all funds are pooled and invested by the SEDC for the purpose of increasing earnings through investment activities and providing efficient management of temporary investments. The pool's investments are reported at fair value at year-end. Changes in the fair value of investments are recorded as investment earnings. Earnings on pooled funds are apportioned and paid or credited to the funds based on the average balance of each participating fund.

**Interfund Receivables and Payables** – Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either "due to/from other funds" (i.e., current portion of interfund loans) or "advances from/to other funds" (i.e., the noncurrent portion of interfund loans).

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available resource.

**Inventories** – Inventories are valued at cost or, if donated, at fair value when received, using the moving average method. The consumption method of accounting is applied to the inventories of all funds.

**Capital Assets** – Capital assets, which include buildings and improvements, and furniture and equipment, are reported in the government-wide financial statements. The SEDC defines capital assets as assets with an initial, individual cost of more than \$5,000 for land, furniture and equipment and \$75,000 for buildings and improvements and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended asset lives are not capitalized.

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Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Buildings and improvements and furniture and equipment of the SEDC are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20
Furniture	15
Machinery and Tools	15
Laboratory Equipment	10
Licensed Vehicles	10
Computers	5

**Compensated Absences** – SEDC policies do not allow for the accumulation by employees of significant amounts of either vacation or sick leave. Vacation and sick leave are charged to operations as they are incurred. As a result of SEDC policies, no provision is made in the financial statements for unused leave. The SEDC does have an early retirement agreement in place that resulted in an early retirement liability that has been recorded in the financial statements.

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

**Comparative Data and Reclassifications** – Comparative data for the prior year has been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the SEDC's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

**2. DEPOSITS AND INVESTMENTS**

*A. Deposits*

*Deposits – Custodial Credit Risk* – Custodial credit risk is the risk that in the event of a bank failure, the SEDC's deposits may not be returned to it. SEDC follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. The SEDC considers the

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actions of the Utah Money Management Council to be necessary and sufficient for adequate protection of its uninsured bank deposits. SEDC's funds are deposited in qualified depositories as defined by the Act. SEDC does not have a deposit policy for custodial credit risk. As of June 30, 2005, SEDC's custodial credit risk for deposits were as follows:

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance</u> <u>June 30, 2005</u>
Regular Checking Account	Insured	\$ 0
Regular Checking Account	Uninsured and collateralized	0
		<u>\$ 0</u>

*B. Investments*

The SEDC's investments are managed through participation in the state Public Treasurer's Investment Fund. As of June 30, 2005, the SEDC had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Utah Public Treasurers' Investment Fund	42 days average	<u>\$606,812</u>

Investments – Interest Rate Risk – The SEDC does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, interest rate risk is managed by compliance to the Utah Money Management Act which provides guidance for handling depository and investing transactions in order to minimize interest rate risk.

Investments – Credit Risk – The SEDC follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. SEDC funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the SEDC to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-trade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah. The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The SEDC considers the actions of the Council to be necessary and sufficient for adequate

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**JUNE 30, 2005**

protection of its investments. The SEDC has no investment policy that would further limit its investment choices.

***Investments – Custodial Credit Risk*** – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the SEDC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**3. CAPITAL ASSETS**

Capital Asset activity for the year ended June 30, 2005 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated				
Land	\$ 0	-	-	\$ 0
Total capital assets, not being depreciated	0	-	-	0
Capital assets, being depreciated				
Buildings and improvements	90,000	-	-	90,000
Furniture and equipment	<u>1,093,724</u>	<u>28,783</u>	<u>-</u>	<u>1,122,507</u>
Total capital assets, being depreciated	1,183,724	28,783	-	1,212,507
Accumulated depreciation for:				
Buildings and improvements	(23,400)	(1,800)	-	(25,200)
Furniture and equipment	<u>(725,624)</u>	<u>(55,882)</u>	<u>-</u>	<u>(781,506)</u>
Total accumulated depreciation	( 749,024)	(57,682)	-	(806,706)
Total capital assets, being depreciated, net	<u>434,700</u>	<u>(28,899)</u>	<u>-</u>	<u>405,801</u>
Governmental activities capital assets, net	<u>\$ 434,700</u>	<u>\$ (28,899)</u>	<u>\$ -</u>	<u>\$ 405,801</u>

For the year ended June 30, 2005, depreciation expense was charged to functions of the SEDC as follows:

<b>Governmental activities:</b>	
Supporting services:	
Instructional Staff	<u>\$ 57,682</u>
Total depreciation expense - governmental activities	<u>\$ 57,682</u>

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**4. RETIREMENT PLANS**

**Defined Benefit Plans** - The SEDC, through Iron County School District, contributes to the State and School Contributory Retirement System and State and School Noncontributory Retirement System (Systems), which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (URS). URS provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953, as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Plan members in the State and School Contributory Retirement System are required to contribute 5% of their annual covered salary (all or part may be paid by the employer for the employee) and Southwest Educational Development Center is required to contribute 8.89% of their member's annual covered salary. Southwest Educational Development Center is not currently participating in the Contributory System. In the State and School Noncontributory Retirement System the Southwest Educational Development Center is required to contribute 13.38% of the member's annual covered salary. The contribution rates are the actuarial determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Total Iron County School District contributions, including SEDC's contributions to the State and School Contributory Retirement System for the years ending June 30, 2005, 2004 and 2003 were \$24,485, \$16,255 and \$16,135 respectively. The Noncontributory Retirement System contributions for June 30, 2005, 2004 and 2003 were \$2,684,364, \$2,582,699 \$2,481,654 respectively. The contributions were equal to the required contributions for each year.

**Deferred Compensation Plan** - The SEDC, through Iron County School District, participates in a deferred compensation plan administered by the Utah Retirement Office established under Internal Revenue Code Section 457. Employees are permitted to defer a portion of their salary until future years. The assets and income of the 457 Plan are held in trust by the Utah State Retirement Office for the exclusive benefit of the participants or their beneficiaries and are not assets of SEDC.



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**5. RISK MANAGEMENT**

The SEDC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The SEDC has joined with other public entities in a common risk management and insurance program operated by the State of Utah Division of Risk Management. The SEDC pays premiums to this risk pool, the Utah State Risk Management Fund, for its general insurance coverage. The pool is self sustaining through member premiums and reinsures through commercial companies for claims in excess of specified amounts for certain types of risks. The SEDC is subject to a minimal deductible for claims of the risk pool. The SEDC has purchased commercial insurance for other risks of loss including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Unemployment compensation is maintained through Utah Department of Workforce Services, settle claims for the past three years have been insignificant. Utah State Risk Management covers all SEDC employees for worker's compensation.

**6. LONG-TERM OBLIGATIONS**

Long-term liabilities include obligations for early retirement insurance benefits. The early retirement obligations at June 30, 2005 is \$24,267.

**7. GRANTS**

The SEDC receives significant financial assistance from Federal and State governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the SEDC's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable fund. Based on prior experience, SEDC administration believes such disallowance, if any, would be immaterial.

## **OTHER REPORTS**

**GILBERT & STEWART**  
CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL CORPORATION

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**Report on Internal Control Over Financial Reporting  
And Compliance and Other Matters Based on an  
Audit of Financial Statements Performed In  
Accordance with *Government Auditing Standards***

Board of Directors  
Southwest Educational Development Center  
Cedar City, UT

November 29, 2005

We have audited the financial statements of Southwest Educational Development Center as of and for the year ended June 30, 2005, and have issued our report thereon dated November 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

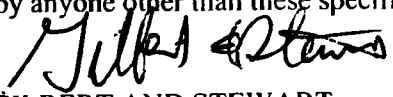
**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Southwest Educational Development Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance**

As part of obtaining reasonable assurance about whether Southwest Educational Development Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of management, Utah State Auditor, State Office of Education and is not intended to be and should not be used by anyone other than these specified parties.

  
GILBERT AND STEWART  
Certified Public Accountants

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**Independent Auditor's Report on  
Legal Compliance with Applicable  
Utah State Laws and Regulations**

Board of Directors  
Southwest Educational Development Center  
Cedar City, UT

November 29, 2005

We have audited the accompanying financial statements of the governmental activities of Southwest Educational Development Center for the year ended June 30, 2005, and have issued our report thereon dated November 29, 2005. Our audit included test work on the Southwest Educational Development Center's compliance with those general compliance requirements identified in the State of Utah's Legal Compliance Audit Guide including:

The District received the following major State grant during the year ended June 30, 2005

**Minimum School Programs**

The District did not receive any non-major State grants during the year ended June 30, 2005.

Our audit also included test work on the SEDC's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Budgetary Compliance  
Cash Management

Purchasing Requirements  
Other Compliance Requirements

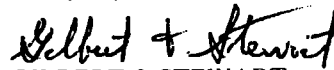
The management of the Southwest Educational Development Center is responsible for the Center's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the SEDC's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Southwest Educational Development Center complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2005.

This report is intended solely for the information of management, the Board of Education, State Office of Education, and Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

  
GILBERT & STEWART  
Certified Public Accountants